

PUBLIC DISCLOSURE

May 16, 2005

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

PREMIER SOURCE CREDIT UNION

450 COTTAGE STREET
SPRINGFIELD , MA 01104

DIVISION OF BANKS
ONE SOUTH STATION
BOSTON, MA 02110

<p>NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the Division of Banks concerning the safety and soundness of this financial institution.</p>
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GENERAL INFORMATION

The Community Reinvestment Act ("CRA") requires the Massachusetts Division of Banks ("Division") to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting its needs of its entire local community, including low and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the Division must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of **PREMIER SOURCE CREDIT UNION (or the "Credit Union")** prepared by the Division, the institution's supervisory agency.

INSTITUTION'S CRA RATING: This institution is rated "Satisfactory"

Premier Source Credit Union's CRA performance evaluation is based on three lending performance criteria. The criteria are the institution's level and trend of net loans to total shares and deposits; the distribution of its lending to borrowers of different income levels; and its record of fair lending policies and practices. These factors are considered within the Credit Union's performance context, which encompasses the institution's overall capacity to lend and the composition of its assessment area/membership sphere.

The satisfactory rating is based on a reasonable distribution of loans to borrowers of all income levels; an adequate performance with regard to fair lending practices; and an average net loans to total shares and deposits of 43.3 percent. The distribution of lending to borrowers of all income levels is given the greatest consideration in the overall evaluation. This lending criterion best demonstrates the institution's record of helping to meet the credit needs of its entire membership, including low-income and moderate-income borrowers. No discriminatory lending practices were noted. No CRA complaints were received by the Credit Union.

PERFORMANCE CONTEXT

Description of Institution

Premier Source Credit Union is the successor institution to two mergers of the Kelko Credit Union: the first with the Twin Meadows Federal Credit Union in 2000 and the second with Spaulding Employees Credit Union in 2001. The merged credit union, retaining the name and charter of Kelko Credit Union, changed its name to Premier Source Credit Union in January 2004.

Kelko Credit Union was originally chartered in 1941 to serve the employees of the Kellogg Envelope Company, located within the City of Springfield. Kellogg Envelope Company, reorganized as Westvaco Envelope Company and purchased by The Mead Corporation in the 1990's, now functions as the Mead/Westvaco Division. Twin Meadows Federal Credit Union served the employees of the Towns of Longmeadow and East Longmeadow, while Spaulding Employees Credit Union served its employee group at Spaulding Worldwide Headquarters in Chicopee, Massachusetts. See Assessment Area Description for further discussion of the Mead/Westvaco select employee group ("SEG") and other employee groups served.

Premier Source Credit Union currently operates its main office at 450 Cottage Street, Springfield, situated in the Springfield Industrial Park, approximate to the Mead/Westvaco location. The Credit Union operates its only full-time branch office at 328 North Main Street, East Longmeadow. Additionally, the Credit Union continues to operate a part-time office at the Meadow Street, Chicopee manufacturing plant, now owned by Top Flite, Inc and two part-time offices/depots at Springfield College and Western New England College.

As of March 31, 2005, Premier Source Credit Union had total assets of \$26.1 million of which total loans represented \$11.3 million or 43.2 percent of total assets.

Loan Portfolio as of March 31, 2005		
Type of Loans	\$'s (000's)	% of Total Loans
Residential Real Estate		
a. Home Equity Loans/Lines*	6,186	54.7%
Consumer Loans		
a. New Auto Loans	2,153	19.0%
b. Used Auto Loans	1,624	14.4%
c. Unsecured Loans	1,074	9.5%
d. All Other	272	2.4%
Total	11,309	100.0%

Source: NCUA Call Report (5300) 03/31/05 *Includes Home Improvement Loans for \$360M.

PERFORMANCE CONTEXT (CONTINUED)

Description of Institution (Continued)

Equity loans and lines of credit secured by 1-4 family dwellings represent the majority (54.7%) of the loan portfolio. The second largest segment (33.4%) of the loan portfolio includes new and used auto loans.

Unsecured personal loans and all other loans comprise the remaining portion (9.5% and 2.4%, respectively) of the loan portfolio. All other loans include share secured, recreational vehicle and motorcycle loans.

Although, the Credit Union has diversified its loan portfolio to include home equity loans/lines, its lending philosophy and policy remain oriented to serve its members' diverse credit needs. As of March 31, 2005, unsecured personal loans and new/used auto loans numbered 420 and 424 loans, respectively. Based solely on the number of loans, these loan groups represented 75.2 percent of all the institution's outstanding loans.

The Division last conducted a CRA examination of Kelko Credit Union, as an industrial based credit union on November 5, 1998. This examination resulted in the institution receiving a "Satisfactory" CRA rating.

Description of Assessment Area

The Division's CRA regulation requires that each financial institution delineate one or more assessment areas within which the institution's record of helping to meet community credit needs is evaluated. The Division's CRA regulation further states that "a credit union whose membership by-law provisions are not based on residence may delineate its membership as its assessment area." Since Premier Source Credit Union's membership by-law is based primarily on the employment affiliation; its membership serves as its assessment area.

Premier Source Credit Union's by-law provision defines membership as current and former employees of sixteen Select Employee Groups (SEG's) and their immediate families. These SEG's include: Mead/Westvaco Envelope Division and all other companies situated within the Springfield Industrial Park; Grace Food and Aramark Food Services; Top Flite, Inc.; the town governments of Longmeadow, East Longmeadow and Hampden, including the East Longmeadow Housing Authority; Baypath; Springfield and Western New England Colleges; Willie Ross School for the Deaf; Lower Pioneer Valley Education Collaborative; and Premier Source Credit Union or its predecessor, Kelko Credit Union.

Membership also includes the local unions' business agents, retirees of the above companies and their families and organizations of those eligible for membership. Eligible family members are defined as spouse, son or daughter, mother or father, sister, brother, grandson or grand-daughter.

The Credit Union's membership assessment area is situated within the Springfield, MA Metropolitan Statistical Area ("MSA"). The Median Family Income ("MFI") (or area

PERFORMANCE CONTEXT (CONTINUED)

Description of Assessment Area (Continued)

median income) was \$56,800 in 2003 and \$61,200 in 2004. In 2004, the federal government's Office of Management and Budget ("OMB") reconfigured the MSAs nationwide, determining all MSAs would be based on county boundaries. Consequently, the Springfield, MA MSA now encompasses the Western Massachusetts Counties of Hampden, Hampshire and Franklin.

As of March 31, 2005, Premier Source Credit Union had 3,682 active members with an estimated 14,400 potential members. Certain SEG's are larger and more active and comprise the majority of the Credit Union's members. These groups are Top Flite, Inc (800 employees), Springfield College (526 employees), and Western New England College (458 employees), and the town governments of East Longmeadow and Longmeadow (approximately 552 employees). Lastly, the employee base (now Mead/Westvaco Corporation) of the former Kelko Credit Union has declined to about 60 individuals, housed in the corporate office situated within the Springfield Industrial Park.

Scope of the Evaluation

Premier Source Credit Union is evaluated for its CRA performance as an industrial based institution. Consequently, the two lending criteria based on geographic analysis of lending are excluded. The three remaining lending criteria upon which this evaluation is based include: an analysis of net loans to deposits; the distribution of lending among borrowers' of different income levels; and the Credit Union's fair lending policies and practices and any CRA related complaints received. The evaluation period covered the calendar years 2003 and 2004.

The analysis of the Credit Union's lending among borrowers of different income levels was determined by selecting a random sample of the institution's loan originations in 2003 and 2004. Specifically, the analysis sampled unsecured personal loans, including holiday loans and special loan offerings, since these personal loan products represented the largest number of loans granted. In addition, the borrower income analysis included a random sample of home equity and home improvement loan originations, since these loans represented the largest dollar volume of loans granted.

In 2003, the Credit Union granted 338 personal loans for a total of \$1.0 million and 111 home equity loans, including 5 home improvement loans, for a total of \$3.9 million. In 2004, Premier Source Credit Union granted 325 personal loans for a total of \$988 thousand and 123 home equity loans, including 17 home improvement loans, for a total of \$4.1 million.

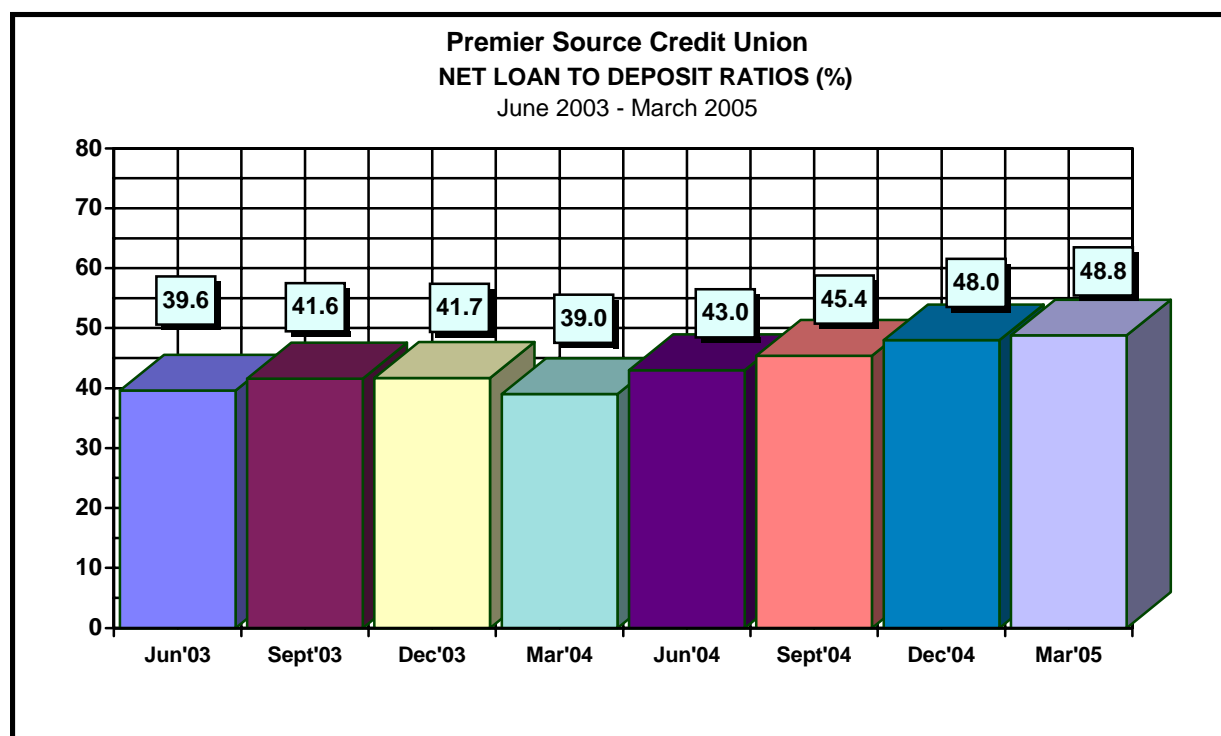
Not included in the analysis of lending among borrowers of different income levels was the Credit Union's auto lending activity in 2003 and 2004. In 2003, Premier Source Credit Union granted 178 new and used auto loans totaling \$2.1 million and in 2004 granted 169 new and used auto loans totaling \$2.2 million.

PERFORMANCE CRITERIA

1. LOAN TO DEPOSIT ANALYSIS

This first criterion evaluates the level and trend of the Credit Union's net loan-to-deposit ratio. The average net loan-to-deposit ratio is 43.3 percent for the period from June 30, 2003 through March 31, 2005. Premier Source Credit Union's performance is considered reasonable, given the institution's lending capacity. The ratio analysis is based on data reported on the Credit Union's 5300 National Credit Union Administration ("NCUA") Call Reports of Condition.

The following graph depicts the loan to deposit ratio level and trend for the quarters reviewed.



In the twelve months ending March 2004, the Net Loan to Deposit ("NLTD") ratio fluctuated slightly and then returned to the initial level. During this period, loans declined slightly and deposits experienced a modest growth of 2.3%. In contrast in the twelve months ending March 2005, the Credit Union's NLTD ratio demonstrated a steady upward trend; loans grew by 21.9 percent while deposits declined slightly by 2.9 percent.

The table following compares Premier Source Credit Union's net loan to deposit ratio to three other credit unions, which have offices situated in proximity to the Springfield Industrial Park. The comparison is offered as further evidence that the credit union's performance for this lending criterion is considered to be reasonable.

Institution	NLTD	Total Assets \$'s (000's)
Premier Source Credit Union	48.0%	\$25,971
Pioneer Valley Postal Credit Union	68.8%	\$31,359
Springfield Mass Municipal Employees. Credit Union	58.5%	\$70,800
First Pioneer Credit Union	41.7%	\$77,557

Source: NCUA Financial Performance Reports (FPR's) as of 12/31/04.

PERFORMANCE CRITERIA (CONTINUED)

Of the three comparable institutions, Pioneer Valley Postal Credit Union remains industrial based, chartered to serve postal employees and their families, while Springfield Mass Municipal Employees Credit Union and First Pioneer Credit Union (formerly Monsanto Employees Credit Union) have expanded their former industrial based membership to include the broader community.

In conclusion, Premier Source Credit Union's average net loans to deposit ratio of 43.3 percent is reasonable and meets the standards for a satisfactory rating. Furthermore, the Credit Union's capacity to lend is demonstrated by its increasing NLTD trend.

2. COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE OF THE ASSESSMENT AREA(S)

This criterion evaluates an institution's record of lending within a defined geographic assessment area. However, an analysis of lending patterns inside and outside a geographically defined assessment area is not meaningful, due to Premier Source Credit Union's membership being based on employment affiliations. Consequently, no analysis for this criterion was undertaken.

3. DISTRIBUTION OF CREDIT AMONG DIFFERENT INCOME LEVELS

This third performance criterion evaluates the extent to which an institution lends to borrowers of different income levels inside its membership assessment area. The Massachusetts' CRA regulation encourages credit unions to serve the credit needs of all segments of its assessment area/membership, particularly those of low and moderate-income. Consequently, this criterion is given the greatest weight in evaluating an industrial credit union's overall CRA rating. Premier Source Credit Union's lending distribution by borrowers' income levels is considered to be reasonable and meets the standards for a satisfactory performance.

As mentioned previously, this analysis is based on a random sampling of all personal loans, home equity loans, and home improvement loans granted in the calendar years 2003 and 2004. A sample size is determined based on the number of loans granted in each calendar year. An analysis of each borrower's income in relation to the MSA's area median income/MFI was then undertaken. The Springfield, MA MSA's MFI was \$56,800 in 2003 and \$61,200 in 2004.

By CRA definition, borrowers qualify as low income if below 50% of MSA MFI; moderate-income is between 50% and 79% of MSA MFI; middle-income is between 80 and 119% of MFI; and upper-income is 120% or more of MSA MFI. In 2003, a low-income family earned \$27,800 or less, while a moderate-income family household earned no more than \$44,900, annually. Middle income families had incomes ranging from \$45,400 to \$67,600, while upper income family households earned \$68,200 or more, annually.

PERFORMANCE CRITERIA (CONTINUED)

As mentioned previously, home equity and home improvement loan originations were analyzed, since these loans represented the largest dollar volume of loans granted. The following table details the distribution of home equity loans by borrower income levels in 2003 and 2004.

Home Equity Loan Originations* by Borrower Income Levels												
Income Levels	2003				2004				Totals			
	#	%	\$(000)	%	#	%	\$(000)	%	#	%	\$	%
Low	0	0.0	0	0.0	3	9.4	82	11.8	3	4.8	82	4.7
Moderate	7	22.6	192	18.1	9	28.1	139	20.0	16	25.4	331	18.8
Middle	5	16.1	202	19.0	8	25.0	145	20.9	13	20.6	347	19.8
Upper	19	61.3	667	62.9	12	37.5	329	47.3	31	49.2	996	56.7
Totals	31	100.0	1,061	100	32	100.0	695	100	63	100	1,756	100

Source: *Also includes Home Improvement Loans

The analysis demonstrates that low and moderate-income borrowers received a reasonable percentage (30.2 % by number and 23.5 % by dollars) of the loans originated, while loans to middle income borrowers represented 20.6 percent by number and 19.8 percent by dollar volume of the loans analyzed. Lastly, upper income borrowers received the largest percentage (49.2% by number and 56.7% by dollar volume) of the loans granted. Equity loans, as a credit product, tend to serve the more economically established credit union members, who own their home and have equity in those homes to borrow against. However overall, the above analysis indicates a reasonable loan distribution among all borrower income levels, but most importantly, the low and moderate-income borrowers.

Personal loans originations were also analyzed, since they represented the largest number of loans granted during the review period. In 2003, the Credit Union granted 338 personal loans for a total of \$1.0 million and in 2004 granted 325 personal loans for a total of \$988 thousand.

The following table details the distribution of personal loans by borrower income levels for 2003 and 2004.

Personal Loan Originations by Borrower Income Levels												
Income Levels	2003				2004				Totals			
	#	%	\$(000)	%	#	%	\$(000)	%	#	%	\$	%
Low	16	33.3	45	30.6	21	46.7	59	41.3	37	39.8	104	35.9
Moderate	17	35.4	48	32.7	15	33.3	56	39.2	32	34.4	104	35.9
Middle	11	23.0	38	25.8	6	13.3	16	11.1	17	18.3	54	18.6
Upper	4	8.3	16	10.9	3	6.7	12	8.4	7	7.5	28	9.6
Totals	48	100.0	147	100	45	100.0	143	100	93	100	290	100

As demonstrated, low and moderate-income borrowers received the majority (74.2 % by number and 71.8 % by dollars) of the loans originated. Upper income borrowers received the smallest portion (7.5% by number and 9.6% by dollar volume) of loans granted. Lastly, loans to middle income borrowers represented 18.3 percent (by number) and 18.6 percent (by dollar volume) of the loans analyzed.

PERFORMANCE CRITERIA (CONTINUED)

Since the above analysis uses the MFI, and personal loans are largely granted to individuals, the above results may be skewed. However, the above distribution indicates that personal loans serve a cross-section of the credit union's membership, but particularly the credit needs of low and moderate income borrowers.

In summary, the Credit Union originated nearly the majority (49.2% by number and 56.7% by dollar volume) of home equity loans to upper income borrowers; however, a significant portion (30.2 % by number and 23.5 % by dollars) was granted to low and moderate income borrowers. Given the nature of equity loans, the distribution among the income levels of borrowers is considered reasonable and to be anticipated. Furthermore, the analysis of personal loans demonstrated a strong distribution of credit among low-income and moderate-income borrowers. Consequently, the Credit Union's lending for this criterion meets the standards for satisfactory performance.

4. GEOGRAPHIC DISTRIBUTION OF LOANS

This fourth performance criterion evaluates the institution's record of addressing the credit needs of its assessment area, based on the geographic distribution of loans. Since Premier Source Credit Union defines its assessment area as its membership instead of a geographically defined area; an analysis of loans granted based on geographic location was not conducted.

5. REVIEW OF COMPLAINTS AND FAIR LENDING POLICIES AND PRACTICES

Premier Source Credit Union received no CRA related complaints in the period under review. The Credit Union has an adequate record of implementing fair lending policies and practices. The following discussion of the fair lending review is based on Regulatory Bulletin 2.3-101 guidelines.

Premier Source Credit Union has a total of 15 employees; 8 full-time and 7 part-time. One full-time employee is a member of a racial minority group and one part-time employee is bilingual in Portuguese. Staff training is conducted quarterly on a Saturday morning. Topics discussed include various consumer compliance issues, the Credit Union's policies and procedures and any policy/procedural changes. The Credit Union's two loan officers attended a three day seminar on lending in March 2005. Additionally, employees attend seminars related to their job responsibilities, as these opportunities are available.

The Credit Union's Board of Directors reviews annually all lending policies and approves any interim changes made, as needed. There are written policies for consumer loans and home equity and home improvement loans, which outline all underwriting guidelines and procedures. The Credit Union's policies establish a borrower qualifying Debt to Income (DTI) ratio of 50.0 percent. Any loans granted as exceptions to loan policy are reviewed by the Credit Committee and ratified by the Board of Directors.

PERFORMANCE CRITERIA (CONTINUED)

Premier Source Credit Union's consumer loan offerings include: new and used automobile loans; unsecured personal loans; share secured loans; recreational vehicle and motorcycle loans. The Credit Union's automobile loans offer a maximum term of 72 months, a loan to value ("LTV") of 100 percent of sales price (sticker price for new cars, average NADA retail for used cars), a maximum loan amount of \$60,000 (new and used) and loan minimums of \$2,500 for used cars and \$5,000 for new automobiles. Motorcycle loans have a maximum loan amount of \$25,000 with a 100 percent LTV, while recreational vehicle (boat, camper or trailer) loans have a maximum loan amount of \$40,000 (100% LTV). Unsecured personal loans also have a maximum term of 72 months, maximum loan amount of \$7,500 for one borrower and \$10,000 for two borrowers and a minimum loan amount of \$500. Share secured loans have a minimum loan amount of a \$1,000 with a maximum loan amount up to the share account balance and a 60 month term or up to the certificate of deposit term.

The Credit Union offers a closed-end fixed rate home equity loan product with a maximum term of a 120 month, maximum LTV of 95.0 percent of appraised value, maximum loan amount of \$200,000 with a minimum amount of \$10,000. Additionally, the institution offers a closed-end fixed rate home improvement loan with a maximum term of 240 months, maximum LTV of 90.0 percent of assessed value, maximum loan amount of \$100,000 with a minimum amount of \$10,000. These maximum loan amounts, LTV's and the 240 month term for home improvement are expanded lending powers for which the Credit Union was approved by the Division in October 2004.

Premier Source Credit Union began offering home equity lines of credit ("HELOC's") in January 2005. The HELOC, a variable rate product tied to prime rate, has a 120 month draw period and 60 month repayment period, a maximum loan amount of \$200,000 and maximum LTV of 95.0 percent. This maximum loan amount and LTV are expanded lending powers for which the Credit Union was approved by the Division under parity powers in October 2004.

PERFORMANCE EVALUATION DISCLOSURE GUIDE

Massachusetts General Laws Chapter 167, Section 14, as amended, and the Uniform Interagency Community Reinvestment Act (CRA) Guidelines for Disclosure of Written Evaluations require all financial institutions to take the following actions within 30 business days of receipt of the CRA evaluation of their institution:

- 1) Make its most current CRA performance evaluation available to the public;
- 2) At a minimum, place the evaluation in the institution's CRA public file located at the head office and at a designated office in each local community;
- 3) Add the following language to the institution's required CRA public notice that is posted in each depository facility:

"You may obtain the public section of our most recent CRA Performance Evaluation, which was prepared by the Massachusetts Division of Banks, at (450 Cottage Street, Springfield, MA 01104)."

[Please Note: If the institution has more than one local community, each office (other than off-premises electronic deposit facilities) in that community shall also include the address of the designated office for that community.]

- 4) Provide a copy of its current evaluation to the public, upon request. In connection with this, the institution is authorized to charge a fee which does not exceed the cost of reproduction and mailing (if applicable).

The format and content of the institution's evaluation, as prepared by its supervisory agency, may not be altered or abridged in any manner. The institution is encouraged to include its response to the evaluation in its CRA public file.